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**ALASKA ENERGY AUTHORITY  
BOARD OF DIRECTORS  
December 1, 2006 – 2:55 p.m.  
Anchorage and Juneau, Alaska  
Teleconference**

**1. CALL TO ORDER**

Chairman Barry called the meeting of the Alaska Energy Authority to order on December 1, 2006, at 2:55 p.m. A quorum was established.

**2. BOARD OF DIRECTORS ROLL CALL**

Directors present in Anchorage: Mr. Mike Barry (Chairman/Public Member), Commissioner Bill Noll (Department of Commerce, Community & Economic Development), and Mr. John Winther (Public Member).

Director present in Juneau: Deputy Commissioner Tom Boutin (Designee for Department of Revenue).

**3. PUBLIC ROLL CALL**

Staff present in Anchorage: Ron Miller (Executive Director), Chris Anderson (Deputy Director-Credit & Business Development), Valorie Walker (Deputy Director-Finance), Sara Fisher-Goad (Deputy Director-Operations), Becky Gay (Project Manager), Linda MacMillan (Accountant), Brenda Applegate (Comptroller), Brenda J.M. Fuglestad (Admin Manager), and Jim Strandberg (Project Manager).

Others attending: Brian Bjorkquist and Mike Mitchell (Department of Law), Doug Hall, Bob Price, and Lou Agi (ML&P), Jennie Trieu and Henry Dale (GVEA), Wayne Carmony, Jim Walker, and Don Zoerb (MEA), Kirk Wickersham and Sun Kim (Governor Palin's Transition Team), Theresa Obermeyer (Self), Isac Stein and Jeff Brown (Merrill Lynch), Ken Vassar (Birch Horton Bittner & Cherot), Charlie Kozak and Dave McCambridge (KPMG), Tim Bradner (Alaska Journal of Commerce), Jan Sieberts (Washington Capital Management), Don Edwards (Dorsey & Whitney), and Phil Steyer (Chugach Electric Association).

**4. PUBLIC COMMENTS**

There were no public comments.

**5. PRIOR MINUTES – October 16, 2006**

The October 16, 2006 minutes were approved as presented.

**6. OLD BUSINESS**

There was no old business.

**7. NEW BUSINESS**

**7A. Financial Statements Presentation**

Mr. McCambridge said KPMG LLP has an internal policy similar to what is required in public companies in that partners on engagements rotate off the engagements after they have served for a period of time so that there is a fresh look from the Partner level. This is the reason that he is here this year instead of Kathy Porterfield.

Summarizing the letter to the Board, he said KPMG has issued an unqualified opinion on AEA's financial statements. There were no changes in accounting policies or significant transactions that needed to be reported separately. Included in the accounting estimates is \$1.5 million in allowance for bad debt. Under significant audit adjustments, there was one past adjustment where a debt service account in the prior year classifications of net assets was shown and restricted that should have been reduced by the amount of outstanding accrued interest payable of \$3.2 million. Those 2005 financial statements have not be restated to affect that as the adjustment had no impact on the statement of revenues expenses or changes in net assets.

There were no disagreements with management over accounting questions or issues.

In addition to the financial statements which contain KPMG's unqualified opinion, KPMG also conducted separate audits on AEA's federal financial assistance award grants as required under OMB Circular A133. KPMG conducted those audits and has issued unqualified opinions on the conduct of AEA's operation of the federal funds. There were no disagreements with management over accounting questions or issues concerning the A133 audit.

**7B. Matanuska Electric Offer to Purchase Alaska Intertie**

A November 14, 2006 letter from Lee Jordan, President, Matanuska Electric Association, requested a place on the Authority's December agenda to present a proposal to purchase the Alaska Intertie.

Mr. Jim Walker, Senior Counsel for Matanuska Electric Association read into the record his December 1, 2006 presentation (appended to this written record as Attachment A).

Commissioner Noll asked that staff pursue the issue and bring back their thoughts and recommendations to the Board on how to move forward.

Mr. Winther said before this takes place, we first need to decide if we want to sell, then we need to decide how we want to sell it. He had no objection to the proposal but there have not been a lot of discussions about the sale of the asset.

Commissioner Boutin reiterated Mr. Winther's comments and also said that due diligence would require an analysis to see what is best for the Alaska Energy Authority and State of Alaska.

Chairman Barry said that the Energy Task Force spent much time reviewing present practices and hoped for future practices within the railbelt utility system. A key of any potential sale of this asset would be how it fits into an overall railbelt energy grid and the management of that grid, as

there is no question that the Alaska Intertie is a vital link between the southern and northern part of the railbelt. The question is whether our duty under the statute that MEA presented is one of maximizing the value to the corporation or whether it is a much greater burden of doing our best to make the railbelt energy grid serve the people of Alaska as best it can.

Chairman Barry indicated that the Board understood that MEA has proprietary reasons for keeping the details of their proposal confidential; however, it is important that the Alaska Energy Authority look at the actual details of how this would affect the grid. It was grievous that AEA had to go so far as to terminate the intertie agreement in order to focus attention on reparations on the intertie and forestall any potential disservice or lack of service to Alaskans. The Alaska Intertie is a public asset and therefore deserves public scrutiny as to how it is to be dealt with; repaired, maintained, or sold.

Mr. Winther supported the Chairman's recommendation of continuing forward to see where the process leads. Trying to bring the whole thing together in four years has not worked; maybe this will be a way to get the issue taken care of.

Commissioner Noll and Deputy Commissioner Boutin were also in agreement with the recommendation.

Chairman Barry instructed staff to meet with MEA and obtain an understanding of their proposal. After this has been accomplished staff is to hold public hearings to allow the other railbelt utilities and the public to come forth with any thoughts or opinions.

It was noted that staff would need to review whether MEA's proposal could be kept confidential once it has been presented to the Board for action. Mr. Jim Walker said MEA understands that at the time of action there will have to be public disclosure.

Mr. Lou Agi, Municipal Light & Power, asked that the Board front end this process with their own deliberations without considering or discussing any of the matters that have been submitted in confidentiality by MEA. There is no need to get involved with handling confidential material in any respect, even if there is some sense that it would be later divulged, as once you have read the material those ideas will remain with you. He recommended not reviewing any confidential proposal from MEA at this time. Obviously, there are other utilities that are interested in the intertie.

MEA is part of a joint action agency that it created either with Homer Electric through AEG&T or otherwise. This intertie, together with railbelt energy matters, has been in front of the legislature continually as well as in front of the Board of AEA. Under the joint action agency statute there is a process where the legislature will direct AEA to negotiate the sale, transfer, or acquisition with a JAA and then presumably name the agency or instruct that it be done on a competitive basis. This is a public asset and it cannot be better managed than through AEA's hands if it is to be managed at all.

He suggested there may be a greater path of prudence in thinking these matters over. AEA has a specific statute which speaks to the sale of AEA assets – there are rival competitors in the railbelt scenario – maybe the process to sell or transfer the intertie asset should be led by the legislature and the Governor's office with input from AEA. Mr. Agi said that he is sensing that the Board of AEA is giving up entirely on managing the intertie. He indicated that in the course of the meetings that he attended, which led to the termination document, he recalled one time that the Chairman said that a principal source of the problem and failing to achieve unanimity was MEA's positions on a lot of the restructuring.

When the termination notice was issued, AEA indicated that they thought the problems could be solved fairly easily and, at a point, the Board directed AEA's engineer to work with the utilities. Nobody has ever said anything. In fact, you have had no negative comments in front of you by any of the utilities, at least none formally. You can infer that there was an effort to see where that would lead, but now the same agency, less than 30+ days later, is saying insoluble, can't be handled, best thing is to get rid of it and bring \$50 million into the treasury. He suggested that is not the path of wisdom or consistency and that there is also a sense of hubris to have heard senior council to MEA come forward, cite the event that precipitated the termination, and say obviously it has to be managed by a utility and let us be your utility.

Chairman Barry stated he did not hear the Board say they thought the Authority should accept the offer. The consensus of the Board is this is a genuine offer so they should have consideration. There is no predilection of accepting or rejecting the offer.

We appreciate your comments about the confidentiality issue. This was not an offer that was solicited by the Authority and we are not going to try to push this quickly through the process. Our focus is on how we can make the intertie work better for all Alaskans. It is encouraging that there seems to be a willingness iterated to AEA from the utilities that they are willing to sit down and look at how the agreements can be adjusted to make them work better. No decisions are being made here today at this board meeting. We appreciate your comments and will make ample opportunity for everyone else to voice their opinions.

Chairman Barry asked for clarification on Mr. Agi's comment that other utilities would be interested. He inquired as to whether ML&P would have an interest in either acquiring the intertie jointly with others or separately if the asset were made available. Mr. Agi stated this is part of the area group and one of its stated purposes in its agreement of establishing itself was that we would stand ready to accept and administer the intertie as best we could.

Chairman Barry directed staff to learn more about MEA's offer and then hold public hearings to ascertain a process in which to move forward. He said staff should not abandon the path that we are currently on in working with the utilities to make changes to the existing agreements that would be amenable to everyone that would solve the intertie issues. Consider this another option that has presented itself.

Mr. Winther asked if this meant that staff is going to work toward laying out the process to start negotiations with MEA or is this to be decided if we want to sell it and, if so, then open up the process and ask for offers.

Chairman Barry said the Board is not asking staff to commence negotiations with MEA. We are requesting that staff learn more about MEA's proposal and then hold public hearings to get input from anyone who is affected by this potentiality.

We all understand that this has many nuances and probably needs to be addressed within the overall administration of the railbelt grid. That does not mean that we are going to brush aside a genuine offer that has come forward from one of the prominent utilities on the railbelt. We need to give it due consideration and we will.

Mr. Henri Dale, Golden Valley Electric Association, said AEA needs to evaluate what the best thing is for the State of Alaska. This intertie is very important for a large part of the economy of the state, it links the north and the south, the two biggest residential areas of the state and I would hope that you do your due diligence. Before you go into negotiations AEA needs to

decide what the best purpose is for everybody. You are going to need to evaluate the intertie in the terms of what your study sees as the future for the State of Alaska.

**8A. Director's Status Report of AIDEA Programs and Projects**

Mr. Miller thanked the board for their work during the last four years.

**8B. NEXT MEETING DATE**

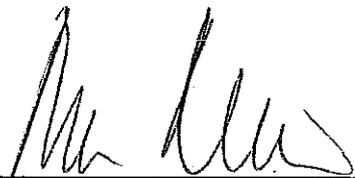
The board will be polled for the next meeting date.

**9. BOARD COMMENTS**

The Board thanked each other and staff for all of their hard work during their tenure.

**10. ADJOURNMENT**

There being no objection and no further business of the Board, the meeting was adjourned at 3:35 p.m.



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Ron Miller, Secretary  
Alaska Energy Authority